

Fugitive PinnFund (PinnLease) founder gives self up in San Diego

Fanghella held after hearing in massive securities fraud case

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SAN DIEGO UNION-TRIBUNE STAFF WRITERS

Michael J. Fanghella, the PinnFund USA founder wanted in connection with a \$330 million securities fraud, surrendered to U.S. marshals yesterday after four months as a fugitive.

Wearing a gray suit and accompanied by his attorney, Fanghella, 50, turned himself in unexpectedly at 9:45 a.m. in San Diego, said Mark Owen of the U.S. Marshals Service. Fanghella was sought by authorities for contempt of court for failing to answer civil fraud charges brought in March by the U.S. Securities and Exchange Commission.

Federal regulators allege that through the Carlsbad-based PinnFund, Fanghella and James Hillman of Oakland defrauded investors out of \$330 million in one of the largest securities fraud cases in San Diego County history...

Fanghella appeared yesterday before U.S. Magistrate Judge Anthony

Less than a month ago, the High Court in Barbados froze Fanghella's assets at the request of U.S. authorities. Fanghella and his one-time girlfriend, Kelly Cook, had about \$808,000 in a Barbados bank account and owned property there worth \$1 million, according to a statement issued by the Barbados government.

Earlier, Huff froze Fanghella's assets in the United States and issued a judgment against him for \$109 million.

"With the asset freeze in place both here and overseas, in most cases (fugitives) choose to do what he did," said Tom Zaccaro, an SEC attorney handling the case.

According to the SEC, at least 166 investors "ponied" up \$330 million over seven years, thinking they were financing mortgage loans made by PinnFund. The company specialized in home loans for customers with poor credit. (plus owned and operated along with their mortgage offices, PinnLease. editor)

Authorities contend that instead of funding mortgages, Fanghella used about one-third of the investors' funds to finance his lavish lifestyle.

Authorities say an additional \$95 million went to cover operating losses at PinnFund, which swelled to 42 offices and had more than 400 employees nationwide before closing March 23.

The rest of the money, regulators say, went to pay the promised 17 percent interest to investors. They say the arrangement was a classic Ponzi scheme, where new investor money is used to pay interest to earlier investors.

Authorities say Fanghella used investor funds to buy a yacht and expensive dinners, including a \$31,000 tab at a restaurant in San Diego. He also used investors' money to pay for jewelry, a \$5 million home, artwork and other gifts for Cook. In all, Cook received \$14 million in investor funds, the SEC says.

Cook, who appeared in adult films under the name Kelly Jaye, is not accused of violating any laws, but she is fighting the SEC's attempts to get her to return what she received from Fanghella. A trial on the case is scheduled this fall.